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# Management

BUSINESS CONDITIONS & FORECASTS

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## The President's Scratch-Pad

### Profit-Sharing and Incentives

IT MAKES little difference whether the language used is the scientific vocabulary of the professor or the everyday shop language of the foreman; when people talk about management, they are talking about how to induce people to produce more. From time immemorial that has been the job of management. Sometimes the talk is so abstruse and highfalutin that the objective itself is obscured; but when all the external superficialities are stripped away, this final core remains:

*Management gets people to produce by setting up the right incentives; these are management's most effective tools—but tools which today are in sad need of sharpening.*

In earlier times, a man tended a field of corn because he knew that the quality and quantity of meal that the field ultimately produced would be determined by the skill and vigor of his own efforts. In modern economic society, this relationship between effort and final reward is far less apparent. In fact, it is sometimes difficult for the worker at the 20th century machine to calculate his earnings at all; and he has learned that there is possibility that the opportunity to work itself may be snatched from him.

In the early 1920's, it became fashionable for companies to introduce profit-sharing plans for employees. Hundreds of organizations, motivated by the most laudable impulses of good will announced to their employees that there was "a melon to be cut"; and the melons were cut very regularly, to the point where the employees took the phenomenon for granted and accepted

profits as part of their wages. When profits failed to materialize, however, or were reduced, the employees considered that their wages had been arbitrarily cut.

These plans were not incentives in the true sense of the word, because an incentive, to be effective, must be completely understood by the employees. But even more important, in most of these plans there was no direct relationship between individual effort and individual reward. If there were variations in the amounts received by individuals, that depended upon other factors and rarely upon measurable expenditure of effort.

Now many companies in an effort to firm up their relations with employees and unions—to restore morale damaged during this period of industrial strife—are considering ways and means of giving their employees a sense of participation in the company and a feeling that they can benefit from the over-all success of the organization. Judging by announcements that have been made and inquiries that have been received, it appears that some of the methods being considered bear a strong resemblance to the profit-sharing plans of the past decade, and embody the same fallacious assumptions—namely, that employees will understand and accept the intricate processes of profit determination, and that they will be content to share alike without regard to the quality of individual performance.

The reason why management should

(Continued on page 2)



## TRENDS IN BUSINESS

### GENERAL OUTLOOK

Settlement of the steel strike paves the way for resumption of the upward movement in manufacturing activity which had already begun when widespread stoppages turned the indexes down again.

Inflationary pressure is still very much in evidence, but it seems likely that the price rises, of which there will probably be many, will be held within bounds.

While unemployment of anything like the volume predicted during the war now appears a fairly remote possibility, manpower shortages are expected to ease as more veterans enter the labor market.

### PRODUCTION

Strikes, material shortages, and price uncertainties cut January production down to about the mid-1941 level, although increases occurred in some industries—cotton yarn spinning, automobile manufacturing, crude oil production, flour milling, and underwear knitting.

With the steel strike settled, however, the upturn has already begun. "It should," says *Business Week*, "be pretty rapid unless we hit an early coal strike. Other labor troubles—in non-ferrous metals, for example—won't be insurmountable. Barring coal trouble, it is reasonable to expect that we can regain the end-of-the-year level in perhaps two months."

### EMPLOYMENT

Both employment and unemployment appear to be on the increase. Total employment rose by 360,000 between the early part of December and the early part of January, while the number of unemployment compensation claims

(Continued on page 2)

## Trends in Business

(Continued)

filed increased from 1,800,000 in the week ending January 5 to 2,200,000 in the week ending February 2.

At the same time, there has been a large retirement from the labor force. Census Bureau figures indicate that the number of persons not seeking jobs has risen by nearly 7,000,000. This number is expected to shrink again, however, when more veterans begin looking for work.

### NATIONAL INCOME

National income during 1945 is now estimated at \$160,700,000,000, an all-time high, and double prewar income (1940) of \$76,200,000,000.

Farm income during the first 11 months of 1945 was \$19,692,000,000, as against \$19,290,000,000 in the same months of 1944.

### PRICES

Living costs continued to rise in January, with clothing and house furnishings showing the largest advances, as they have in the past.

The Bureau of Labor Statistics index of wholesale prices rose from 106.8 (1926 = 100) in November to 107.1 in December (preliminary figure). This was 42.8 per cent over the prewar level of August, 1939. Prospects are that a still higher level will be reached this year.

### CONSTRUCTION

Renewal of construction controls to channel available building materials to housing construction is now considered extremely probable.

Building permit values for 215 cities totaled \$204,052,082 in January, Dun & Bradstreet reports, or more than four times last January's figure.

### DISTRIBUTION

Department store sales are still showing large increases over the levels of a year ago. In the week ending January 19, the rise was 19 per cent; in the week ending January 26, 17 per cent; and in the week ending February 2, 20 per cent. Total retail trade for January is estimated to have been approximately 11 per cent above January, 1945.

**SOURCES:**  
ALEXANDER HAMILTON INSTITUTE  
BROOKMIRE, INC.  
BUSINESS WEEK  
CLEVELAND TRUST COMPANY  
DUN'S REVIEW  
FEDERAL RESERVE BANK OF  
NEW YORK  
NATIONAL CITY BANK

## HEARD AT AMA MEETINGS

### SALESMEN'S COMPENSATION

The trend in salesmen's compensation is away from straight commission and straight salary plans, according to Harrison A. Roddick, Partner, McKinsey & Company, speaker at the Marketing Conference, January 15-17, in New York City.

"Today," Mr. Roddick said, "salary plus commission or salary plus bonus leads the field. Commission plans—with or without a drawing account—are next, and straight salary plans last. Fifteen years ago, straight commission and straight salary plans were dominant, but the trend is definitely away from both—toward compensation programs that provide better control of salesmen and also offer strong incentives to do an across-the-board sales job. That means the kind of a job that places emphasis on both immediate volume and other important sales tasks which soundly build a company's long-range competitive position."

### EXECUTIVE PLANNING GUIDES

By means of a simple set of charts, known as "executive planning guides,"

American Type Founders, Inc., keeps before its sales executives a picture of their current performance in relation to both the goal for the year and the quarterly budget forecast. The plan was described by Frederick B. Heitkamp, Vice President of the company, at the Marketing Conference.

The guides, Mr. Heitkamp explained are of uniform size, approximately 11"x24", with the months of the year printed across the top. When the company has decided, say, the ratio of sales expense to sales volume toward which the sales department should strive, that ratio is plotted on the chart, as a green line. Quarterly forecasts are similarly plotted, but in red, while actual performance is drawn in black as the quarter proceeds. Thus the sales manager can see at a glance how his performance compares with the ultimate goal and with the quarterly forecast.

Separate charts are made for each of a number of different items, among them service expense and percentage recovered, delivery expense, advertising, the amount of money spent for new products, branch performance by territory, and salesmen's performance.

## The President's Scratch-Pad

(Continued from page 1)

consider carefully before entering upon such arrangements is that if they fail, as the older forms of profit-sharing failed, the consequences will be far more serious than they were in the past. It should be borne in mind that the labor movement today is different from that of the 20's. We have better organized and far more militant labor unions. Profit-sharing, no matter what other name it may be given, may ultimately constitute a formal invitation to labor unions to share in the exercise of the managerial activities which so many companies now claim are threatened. It is entirely conceivable also that the amount of profit to be shared will ultimately become the subject of collective bargaining just as straight-time hourly earnings are today.

However, all this is not intended to imply that profit-sharing inevitably must fail. It can succeed, but this is only likely where a soundly conceived industrial relations program has ma-

tured to the point where both employer and employee fully understand and trust one another without reservation. It must be preceded by such a program built upon *non-financial* incentives which the management has deliberately and carefully nurtured. Again, we must conclude that there is no short-cut—no neat device that can be utilized to bypass the job of intelligent industrial relations.

The incentive that modern management must learn to wield effectively is the development of faith on the part of the employees that the company wants to, above all, develop its human resources and to reward people according to their merit; to reward them with all the good things—not money alone—that every man works for.

*Alvin E. Dodd.*

# RESEARCH DEPARTMENT

## The Labor Unions and Company Financial Reports

Rarely, if ever, has there been so much dispute as to what the "books of account" can and cannot reveal. The current attempt by some of the labor unions to substitute their judgment for that of management technicians is a challenge to the accountant to defend his techniques, to improve them, and to present them more effectively.

This challenge was anticipated some years ago by Enders M. Voorhees, Chairman of the Finance Committee of the U. S. Steel Corporation, when he called upon accountants, as interpreters of American enterprise through the annual corporation report, "to change what has been mostly a dismal chore, unhonored, unread, and unsung, into a living, pulsating thing that will carry to the American people the documented story of how and by what we live."

### EDUCATION

A prime requirement for the acceptance of financial statements is more enlightenment. Much of accountancy and many accounting concepts are highly technical and complex, requiring detailed interpretation. For the sake of better understanding, the nature and limitations of financial statements and accounting conventions should be explained, and the meaning of the individual items made clear. Often the significant facts lie behind the figures—the degree of company liquidity, the actual position of fixed assets, etc. Also, contingent assets and liabilities may have a marked influence on results. Innumerable intangible factors, such as general business and particular industry conditions, technology, public policy, etc., have a direct bearing on financial conditions, but do not appear in financial statements.

Such clarification might help to dispel the illusion current among some of the rank and file that access to corporations' books would reveal inside information which would justify the original demands for higher wages. Actually, unions could, and probably do, frequently get most of the existing financial and accounting knowledge relating to their companies by a more careful study of annual reports, trade publications and services, additional information disclosed to the SEC in registration and annual statements, and through

purchase of the services of top investment analysts close to the particular firm.

Obviously, the educational process indicated will be long drawn out, but each financial report can make its own valuable contribution to the general process of greater enlightenment.

### PRESENTATION

A financial report which "any man can understand" would necessarily contain little real and reliable information. The childish level to which some reports descend is not appreciated by discerning readers. A separate report for employees may sometimes arouse suspicion that vital information has been omitted or "doctored up."

In spite of "humanizing efforts," the truth is that the balance sheet and income statement are likely to remain complex and formal. Greater understanding of the conventional balance sheet may be obtained by using a "statement of financial condition," such as is shown in the 1944 report of the Caterpillar Tractor Company, which avoids the possibility of unwarranted conclusions drawn from double-entry bookkeeping as well as from surplus figures.

The income statement is being increasingly broken down into its major "natural groups": employment costs, costs of products and services purchased from outside, costs of maintaining the property, costs of government, and sums left over for retention in the enterprise and for payment to the owners of the business. In this way no one cost item is stressed unduly, and erroneous impressions are avoided.

But it is the "narrative" of the financial report which is being increasingly used to explain and enlarge matters which are difficult to understand. Technical words and detailed breakdowns and figures are avoided as far as possible. In the narrative, graphic illustrations, charts, maps, photographs, illustrations, colors, and distinctive headings help to carry the message, if used judiciously.

### PROFITS

One of the main targets of labor union attacks has been the size of some companies' profits. Hence it appears important to explain the nature and

function of profits. There must also be agreement as to what the profits actually are, and as to what "profits" we are talking about. Otherwise a situation may arise, as in the recent hearings before a Senate Committee, where the president of the United Electrical, Radio and Machine Workers, CIO, stated that the General Electric Company had profits after taxes of \$62,000,000 in 1944, an increase of 43 per cent over its 1936-39 average, while the president of the company pointed out that the actual income after taxes in 1944 was \$50,845,000, a rise of only 15.2 per cent over the 1936-39 average. Also, it seems important to avoid the use of the over-emphasized term "profits before taxes" and refer to profits only as the sum available to owners and for reinvestment in the business.

Unfortunately, it is held by many that "large profits" by themselves and regardless of their origin and use are necessarily bad. Frequently, large profit figures are assailed rather than understood. So companies have attempted to make them digestible by expressing them in terms of another figure, such as profit per share of stock, or by dwarfing them as a percentage of wartime sales. However, to hide profits altogether by calling them "wages for tools" seems a little far-fetched. It is objectionable also in that it lists profits as an expense (which would be negative in case of losses!).

Another term which is little understood and closely linked to profits is "surplus." Some believe that surplus is all cash, merely waiting to be distributed to someone; and it is high time to dispel this illusion. It should be made clear that surplus is a cross-section of all assets and not generally available for distribution.

### CONCLUSION

There are many other important topics which may be explained to give real support to a company's wage policy. What is an increase in productivity and how should it be shared? What has been the influence of changing prices on earnings, on fixed assets, on replacement?

Is it really possible to calculate wage increases six months hence on the basis of data three to 15 months past? An approach to the answers to such questions as are raised in this article would be invaluable to the furtherance of industrial peace. The AMA would welcome membership views as a signal contribution to public enlightenment.



# ACTIVITIES of the AMA

## Individual Insurance Questions to Be Answered at Conference

Insurance buyers will have an opportunity to present their questions to experts in a number of different insurance fields at AMA's three-day Insurance Conference set for March 11-13 at the Hotel New Yorker, New York City. I. M. Carpenter, AMA Vice President for the Insurance Division, is in charge of arrangements.

The afternoon of March 11 will be devoted entirely to a question-and-answer session, at which members of a panel will take on all comers. Serving on the panel will be Dale F. Reese, Vice President, The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Conn., for boiler and machinery; Leon S. Gregg, Secretary, American General Insurance Company, for the casualty field; H. C. Baker, Superintendent, Brokerage Department, Royal-Liverpool Groups, for fire insurance; O. A. Ogden, Assistant Secretary, National Fire Insurance Co., for inland marine; and Leonard Peterson, Vice President, Home Insurance Company, for Use and Occupancy.

A round table on insurable values, co-insurance, and depreciation, to be held on the afternoon of March 12, will be another feature. Panel members will be Prentiss B. Reed of New York, speaking for the appraiser; W. C. Feimster, Jr., Executive General Adjuster, Fire Companies' Adjustment Bureau, representing the adjuster; Russell B. Gallagher, Insurance Manager, Philco Corporation, who will speak for the buyer; and C. W. Johnson, Assistant Secretary, Philadelphia Metropolitan Department, Insurance Company of North America, who will present the company viewpoint.

In addition, there will be addresses on: "What's Ahead in Use and Occupancy," "The Basic Theory of Fire Insurance Rating," "Some Aspects of the Law of Aviation Workmen's Compensation," "American Insurance Abroad," "Implications of Public Law 15," "Today's Problems Under Workmen's Compensation," "The Importance of the Insurance Buyer's Job," and "The Employee's Viewpoint on Group Hospitalization."

## Nominating Committee Now Considering Slate; Suggestions Solicited

John H. MacDonald, Vice President, National Broadcasting Company, heads the AMA nominating committee which is now preparing a slate of officers and directors for the 1946-47 season.

Serving with Mr. MacDonald are Norman C. Firth, Managing Editor, *Dun's Review*; James M. Talbot, Vice President, The S. S. White Dental Manufacturing Company; Frederick G. Rudge, President, Fred Rudge, Inc.; James W. Townsen, Personnel Director, West Virginia Pulp and Paper Company; J. A. Robinson, Assistant Vice President in Charge of Insurance Department, McKesson & Robbins, and L. B. Steele, Sales Manager in Charge of Advertising and Promotion, E. I. du Pont de Nemours.

*Suggestions are solicited from the membership, and should be sent to Mr. MacDonald at the National Broadcasting Company, 30 Rockefeller Plaza, New York, N. Y.*

## International Management Congress Set For August 31-September 5 in Stockholm

The long-awaited opportunity for an international meeting to discuss management experience and thinking in recent years and for the future has become a reality with the announcement that the Eighth International Management Congress will be held in Stockholm, Sweden, August 31-September 5.

Sponsored by the International Committee on Scientific Management, of which AMA Board Chairman, William L. Batt, is President, the Eighth Congress will constitute the first organized international exchange of information and views on management problems and techniques since 1938.

Approximately 500 delegates from 15 nations are expected to attend, including 150 to 200 representatives from this country. Preparation of about 30 American papers on a wide variety of topics by U. S. management authorities

## Packaging Show To Be Largest In AMA History

AMA's Packaging Exposition, to be held in the Atlantic City Auditorium on April 2 to 5, inclusive, will be by far the greatest in the series of expositions sponsored by the Association since 1931.

More than 140 leading manufacturers of machinery, equipment, materials, supplies, and services essential to

### AMPLE HOTEL ACCOMMODATIONS

Atlantic City hotels guarantee that adequate hotel facilities will be available for the Packaging Exposition and Conference. A special Housing Bureau has been set up for this purpose. Application forms for hotel reservations may be obtained by communicating with AMA.

the packaging, packing, and shipping of all types of merchandise will participate. Information received from exhibitors indicates that a considerable number of new products and procedures will be revealed for the first time.

Concurrently with the Exposition, AMA will sponsor a conference on packaging, packing, and shipping.

is being arranged by Professor Erwin H. Schell, member of the AMA Board of Directors and Head of the Business and Engineering Administration Department of Massachusetts Institute of Technology, who is chairman of the American Program Committee.

U. S. attendance at the Congress, however, will be limited by transportation facilities, and all persons who wish to go should notify: Charles H. Hatch, Managing Director, Eighth International Management Congress, Coordinating Office for U. S. A. Participation, Room 1712, 347 Madison Avenue, New York 17, New York.

Complete information on the Congress program, on study tours in Sweden which will be conducted before and after the Congress, and on possible meetings of the American delegation aboard ship, will be announced.

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